



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

1st Financial Services Corporation / Mountain 1st Bank & Trust Company

Person to be contacted regarding this report:	Michael G. Mayer
CPP Funds Received:	\$16,369,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	11/14/2008
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	3715257
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	57763
City:	Hendersonville
State:	North Carolina

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	The proceeds from the CPP have been used to fund the operations of the Bank. The operations supported by CPP funds primarily include the continuation of the Bank's lending, deposit gathering, and community investment activities.
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<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	The CPP funds have supported the Bank's fulfillment of its chartered mission of serving the borrowing needs of our local markets. Major lending initiatives have been focused on residential mortgage lending and small business lending.
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	
<input checked="" type="checkbox"/>	Make other investments	The CPP funds have supported the Bank's continued community outreach, including CRA lending.
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	The equity provided by the CPP funds permitted the Bank to increase reserves by \$29.9 million for non-performing assets during 2009.

<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	The equity provided by the CPP funds permitted the Bank to charge off \$10.7 million of non-performing loans. Additionally, the Bank was able to absorb write-downs and losses totaling \$1.9 million associated with other real estate owned and repossessed assets.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

Without the purchase of preferred stock through the CPP and given the extreme disruption in the private equity markets, the likely alternative for the Corporation and the Bank would have been to aggressively curtail lending activities and maintain the Bank's loan portfolio at static levels or even reduce existing portfolio levels. However, as a result of the purchase of preferred stock via CPP, we have been able to continue lending and investment in our local communities. Toward that end, the Corporation's board of directors approved a strategic addition to our existing business plan in early 2009, to expand our small business lending via the recruitment of several SBA and USDA loan production specialists. As the only SBA preferred lender headquartered in western North Carolina, we believe this new business line has allowed us to leverage our small business lending expertise and extend an estimated \$14.2 million in new SBA and USDA loans to small businesses in 2009. We have subsequently originated another \$8.5 million in new SBA and USDA loans in the first half of 2010.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The CPP funds made it possible through September 30, 2009, for both the Corporation and the Bank to maintain regulatory capital at or above "well capitalized" thresholds with both the FDIC and the Federal Reserve Bank of Richmond, our primary federal banking regulators) and continue to serve our communities' lending and depository needs without curtailment. Principally due to the increase in reserves for non-performing loans in the fourth quarter of 2009, the Bank was categorized as "adequately capitalized" under the regulatory framework for prompt corrective action as of year-end 2009.

During 2009, CPP funds supported the fulfillment of the Bank's chartered mission of serving the borrowing needs of our local markets via the origination of approximately 1,100 new loans amounting to approximately \$223 million, consisting primarily of 1-4 family residential mortgage and construction loans of \$118 million, consumer loans of \$56.3 million, and SBA loans of \$14.2 million. The sale of approximately \$112 million of 1-4 family residential mortgage loan originations on the secondary market further enabled the Bank to have the resources to serve the needs of additional individuals and businesses. The Bank supports the depository needs of the communities we serve as evidenced by an increase of \$56.6 million, or 13.6%, in core deposits.

The Bank also developed several special residential mortgage programs to assist service workers and medical practitioners in purchasing homes, whereby they otherwise would have been unable to fulfill their dreams of home ownership. The Bank also worked with delinquent residential borrowers to avoid foreclosure, helping people stay in their primary residences.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

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According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.